KEMMERER Agricultural Bank for the Philippines

1907

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AN AGRICULTURAL BANK FOR THE PHILIPPINES.

A PAPER BY

E. W. KEMMERER.

[From the *Yale Review*, November, 1907.]

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THE only piece of constructive legislation concerning the Philippine Islands enacted at the recent session of the Fifty-ninth Congress was the act[1] authorizing the Philippine government to guarantee interest on private capital invested in an agricultural bank. It will be the object of this paper to show the reasons which have led the Philippine government for the past two years to seek the authority granted by this act, and to show in a general way the character of the institution which it is expected will be established.[2]

The Philippine Islands are preëminently an agricultural country, and their economic future depends most importantly upon the development of their agricultural resources. Nature has endowed them with an abundance of rich soil suitable for raising a great variety of valuable agricultural products, such as hemp and other fibers, sugar, tobacco, rice, copra, coffee, and rubber. Of the total area of the islands about seven million acres, or nine and a half per cent., is classified by the Philippine Census as agricultural land. About forty-six per cent. of this land is under cultivation.[3] For the calendar year 1906 ninety four per cent. of the islands' exports were agricultural products,

[1] Public Act, No. 243, Fifty-ninth Congress, second session, approved by the President March 4, 1907, and entitled "An Act to provide for the establishment of an agricultural bank in the Philippine Islands."

[2] Cf. Jenks, *The Agricultural Bank for the Philippine Islands*, in *Annals of the American Academy of Political and Social Science*, XXX (July, 1907), pp. 38-44.

[3] *Census of the Philippine Islands* (1903), IV, pp. 181, 182. Cf. *Hearings on Revenue for Philippine Islands* in *Senate Documents*, No. 277, Fifty-ninth Congress, first session, Vol. XXII, pp. 192, 193.

while only thirty-five per cent. of the imports consisted of articles of food and animals.[1]

Agricultural conditions in the Philippines during recent years have been unusually bad. During the insurrection cattle were destroyed, fences torn down, farm buildings burned, and thousands of acres of rich soil reclaimed by the tropical jungle. Draught animals have since died in large numbers as the result of the ravages of rinderpest and other cattle diseases, much destruction has been wrought in many parts of the islands by locusts and floods, while through the niggardliness of the American Congress, under the influence of a few representatives of American sugar and tobacco interests in the United States Senate, the Philippines have been denied the scant justice of an American market for their products, and have at the same time been deprived of their previous Spanish market. Philippine agriculture at its best is in a very backward condition. Now that peace has been established throughout the civilized parts of the islands, and the most destructive cattle and plant diseases have been either eliminated or largely brought under control by the excellent work of the government's scientific bureaus, agricultural conditions are improving, but, in the absence of good markets and of adequate transportation[2] facilities, progress is necessarily slow.

The facilities for agricultural credit in the Philippines up to the present time have been altogether inadequate. The statement of the Schurman Commission still holds true, that "lack of proper capital and the high price asked for loans constitute another obstacle, which stupefies industry, augments the cost of production, and restrains, in consequence, its benefits."[3] There is no bank in the Philippines that makes a business of loaning money on landed security. Three of the four banking establishments with their sub-agencies are branches of foreign banking corporations and limit their operations very largely to foreign exchange. Two of these banks are prevented by their

[1] *Quarterly Summary of Commerce of the Philippine Islands*, October-December, 1906, p. 121.

[2] The Philippines, though containing about two and one-half times the area of New York State, have only 200 miles of railroad in operation. Something like 700 miles, however, are now in process of construction.

[3] *Report of the Philippine Commission*, 1900, IV, p. 7.

articles of association from making advances on real estate. The total outstanding loans of the banks of the islands on June 30, 1904, aggregated about $13,000,000,[1] and of this amount probably not over $400,000 was secured by agricultural land, although, as said before, agriculture is the principal occupation of the eight millions or more people inhabiting the archipelago.

The large European commercial houses, particularly in the sugar-producing provinces, sometimes make advances to agriculturists on the security of their crops. These advances, however, are generally confined to the owners of a few large estates, although they in turn may reloan part of the money to their tenants. The loaning of money is foreign to the regular business of these commercial houses, and most of them are unwilling to tie up any considerable amount of capital in such ventures.

In many parts of the Philippines money cannot be borrowed at any rate of interest on the security of agricultural land, no matter how good the land or how perfect the title. In the few sections where agricultural loans are obtainable, they are made largely by Chinamen in small amounts, and at exorbitant rates of interest. Inquiries made in May, 1903, of provincial treasurers throughout the islands elicited the surprising information that rates of interest on agricultural loans as high as 3, 5, and even 10 per cent. *a month* were common.[2] For example, the treasurer of Cagayan reports that interest in that province varies from 25 to 50 per cent.;[3] in Ilocos Sur the rate is said to vary from 10 to 100 per cent.;[4] in Ilocos Norte, from 20 to 100 per cent.[5] It is a common practice for the creditor to obtain the privilege of purchasing the borrower's crops at extremely low prices fixed in advance, so that the nominal rate of interest often falls below the rate really exacted.

[1] *Report of the Comptroller of the Currency*, 1904, I, p. 444.

[2] Cf. Kemmerer, *Report Concerning the Advisability of Establishing a Government Agricultural Bank in the Philippines*, Exhibit B, schedules I and III. (Bureau of Insular Affairs, War Department, Washington, 1906. Reprinted in *Report of the Philippine Commission*, 1906, I, pp. 487–641.) Cited hereafter as *Phil. Agric. Bank Rep.*

[3] Ibid., p. 35.

[4] Ibid., p. 37.

[5] Ibid., p. 37.

Agricultural credit conditions in the Philippines may perhaps be best presented by citing a few extracts from the above-mentioned reports of the treasurers of some of the more important provinces.

Pampanga: What is known as the 'share system' . . . is in vogue here almost universally. The tenant in some cases takes a piece of land and agrees to pay for each *balita* [2,790 square meters[1]], if it is rice land, a specified number of *cavanes* [75 liters] of *palay* [unthrashed rice], or, if it is sugar land, so many *pilons* [loafs varying in weight in the different provinces from 57.5 to 92.0 kilograms] of sugar, regardless of the crop that may be raised. In some few other cases a certain proportion of the crop is paid, which, of course, when crops fluctuate, is a more equitable arrangement. The specific amount paid or the proportion depends altogether on the assistance rendered the tenant in addition to the use of the land. In some cases the tenant furnishes all the labor and the owner everything else, including seed rice, caribao, implements, etc. In other cases the owner furnishes the land and the tenant everything else. Between these two gradations are infinite others. I might say, however, parenthetically, that in no case does the tenant have a fair show.

Then, there is another system which consists in loaning money outright on gilt-edged security at from 25 to 40 per cent. per annum. This is the system where the tenant, being possessed of nothing but a small tract of land, must seek help from some of the wealthier people to cultivate it. He is advanced sufficient seed rice for the planting and furnished money or its equivalent for such other expenses as are necessary. In every case of this kind the rent or toll is not contingent but specific.

If the season is bad the crop raised may be only sufficient to pay the debt due the owner, and, consequently, the tenant is practically in bondage, as he must borrow enough rice to tide him over to the next season. If it should happen that the crop was a failure, then he is in debt to the loaner, who has a mortgage or lien on his land for money advanced which he can foreclose at any time. Frequently the loaner does not foreclose, but holds a sort of a club over the heads of the tenants, who are practically in slavery. In general, I should say that the average small tenant, either cultivating his own land with assistance or cultivating another's land on shares, gets in addition to his board

[1] For native systems of measurement in the Philippines, cf. *Census of the Philippine Islands*, IV, pp. 447-457.

and lodging (which consists of rice and a nipa hut) about 10 per cent. of the crop for his labor.[1]

Ilocos Sur: At the present time a great many loans are being made on lands and crops, most of them on crops, as it is the custom when money is borrowed on land to deliver possession of the land until the loan is paid, and as the land owners lose the revenue from it during the time it is mortgaged, they think a long time before mortgaging it. The rate of interest on loans made on crops ranges from 10 to 100 per cent. . . . [The loans] are generally made on the following terms: A farmer desiring a little money goes to some one of the richer men of his municipality and sells a part of his crop, at a very low price, to be delivered when harvested. The prices paid in these cases are generally about 50 or 75 per cent. of what the prices usually are at harvest time. The loans above described are generally for small amounts, ranging from $10 to $500.

The larger landowners borrow money from the banks and commercial companies in Manila at a fixed rate of interest, ranging from 10 to 25 per cent. per annum, which they subloan to the smaller farmers on the terms above described.[2]

Cagayan: There is considerable money loaned to farmers in this province. The money is not spent for the improvement of the land or in the purchase of implements, but to meet current expenses of farmers for the year. The rate charged is 50 per cent. per annum, or from the time loaned to the harvesting of the crop. The Chino [Chinese] merchant gives the farmer credit, and for each peso the farmer guarantees to deliver at harvest time one *fardo* [14.97 kilograms] of tobacco of the fourth current class, [worth about one peso and a half]. . . . The larger companies loan money with the understanding that the farmer will sell his tobacco to them, but they charge no interest. However, it is generally reported by the natives that the classification of the tobacco is so arranged by placing part of the tobacco in one class lower than where it rightfully belongs, that it results in a charge of from 25 to 50 per cent. People loaning money claim that the risk of collection is so great that this rate is considerably decreased to the creditor. From 30 to 35 per cent. of the farmers borrow money on their crops at present.[3]

Bulacan: Money is very much in demand here. The interest paid is usually from 15 to 25 per cent., in many instances greater. The method employed in making loans is as follows: A person

[1] Kemmerer, pp. 40, 41.
[2] Ibid., p. 37.
[3] Ibid., p. 35.

who has a clear title to a piece of property, say valued at 5,000 pesos, takes such deed, together with a . . . promise to pay for 1,500 pesos to be paid one year after date. This man probably borrows 1,000 or 1,200 pesos, and at the expiration of the note pays 1,500 pesos, when the deed is returned to him.[1]

Although conditions like those just described had prevailed in the islands for a number of years, and Philippine laws had been for a long time,[2] as they are at present,[3] favorable to the establishment of an agricultural bank on private initiative, there seemed no prospect of such an enterprise. The risks involved appeared great, while the expenses connected with the investigation of titles and values, and with the collection of annuities, in a country so extensive as the Philippines, and possessing such inadequate means of communication, were thought to be prohibitive. Other forces have also been operative in preventing private capital from undertaking such an enterprise. Among these may be mentioned the uncertain political future of the country, the lack of confidence in the Filipino as a laborer, and the natural reluctance of capitalists to trust their capital in far distant countries under new and unfamiliar conditions at a time when home investments are yielding such good returns.

The demand on the part of the Filipino people for the extension of agricultural credit facilities in the archipelago has been widespread and persistent. It was frequently heard in Spanish times and has found expression in numerous petitions ever since the beginning of the American occupation. Henry C. Ide, formerly Governor-General of the Philippines, said in his recent testimony before the House Committee on Insular Affairs,[4] that an agricultural bank had been the crying want of the Filipino people from the time he went to the Philippine Islands in 1900 until the present. "I have never been in a province in the islands," he continued, "where the municipal and provincial officials have been gathered together when the first thing that they have presented to my attention was not the need for an agricultural bank." The report of the Philippine Commission

[1] Ibid., p. 34.
[2] Ibid., exhibit D.
[3] Cf. Act No. 1459, United States Philippine Commission
[4] Hearings of January 10, 1906.

for 1906 said,—"It is believed that no single step can be taken that could give greater satisfaction to the general mass of the people than the successful inauguration and carrying on of such a bank."[1]

Much of this popular clamor is of course of the type so often heard in every country, and is made by ignorant and irresponsible persons who look upon an agricultural bank as a short road to wealth without work; persons who would be the last to be granted loans from such a bank if it were established, and the last to repay loans if they should receive them. But the demand fortunately has been by no means limited to this class of people. Many of the strongest advocates of such a bank are industrious and reliable farmers, who own their land, and who would make excellent customers for any conservatively managed bank.

It was under conditions such as these,—conditions which have not greatly improved since—that the Philippine Commission passed a resolution on April 13, 1903, instructing the insular treasurer to prepare a plan for the establishment of a government agricultural bank.

In the summer of 1903 the writer went to the islands as financial adviser to the Philippine Commission, with particular reference to the work of currency reform, and in June, 1904, was instructed to prepare the report called for in the above-mentioned resolution. A careful study was made of the situation in the Philippines, and of agricultural credit institutions in other countries. In February 1905 the Report[2] was submitted to the Philippine Commission. Inasmuch as it has been the basis of nearly all subsequent discussion and action with reference to the extension of agricultural credit facilities in the islands, it will be well to outline the principal features of the plan therein recommended.

The position was taken that there was real need for an agricultural bank in the Philippines, that there was no immediate prospect of such a bank's being established on private initiative, that the Filipino people were not yet prepared to conduct success-

[1] Vol. I, p. 51.

[2] *Supra*, p. 264, note.

fully coöperative land credit associations, and that an agricultural bank financed and administered by the government was inadvisable.

In view of the fact that the Commission's resolution had called for a report on the advisibility of establishing a government agricultural bank, and that this type of a bank was in the minds of most persons who were urging governmental action, the objections to such an institution were discussed in the Report at some length.[1] Two of the principal ones advanced were:

> (1) It would encourage the already too prevalent proclivity of the native population to depend upon the government for financial aid and support. . . . Under such a plan the government would come to be looked upon as a sort of paternal institution, possessing an unlimited amount of wealth upon which it placed little value because it was easily obtainable and which it was under obligation to loan to the people on easy terms of payment. It would be expected to be liberal to the extent of laxity in collecting its annuities and in otherwise enforcing the terms of the loan contract. If it should foreclose mortgages to any extent for non-payment of loans, it would be liable to arouse popular opposition and to be vituperated for its greed in exacting unreasonable terms of a poor and unfortunate people, and for depriving them of their property to increase its already extensive domains.
>
> (2) Governmental officials are not in position to assume the work and responsibility such a plan would entail upon them. The work of a provincial treasurer under such a scheme would be heavy, and it would involve an amount of investigation into the private affairs of the people of his province foreign to the work of his official position and detrimental to its efficient performance. The granting of some applications for loans and the rejecting of others would put the government in a delicate position.

An adaptation of the Egyptian plan is proposed in the Report as a solution of the difficulty. It seeks to avoid the disadvantages connected with a purely governmental institution, and at the same time to remove largely two of the most serious obstacles

[1] *Phil. Agric. Bank Rep.*, pp. 9-11; cf. also Hearings on the proposed Agricultural Bank for the Philippine Islands before the United States Senate Committee on the Philippines, January 30, 1907.

in the way of the establishment of an agricultural bank by private capital,—viz., large risk and heavy administrative expenses.

The distinctive features of the Egyptian plan consist (1) in the government's guaranteeing principal and interest on capital invested in loans to the fellaheen by an agricultural bank financed and controlled by private capitalists and (2) in the government's placing at the disposal of the bank, for the collection of annuities and for other minor duties, the service of tax collectors and of certain other local officials. Annuities due the bank are paid at the same time as the regular land tax, and a small commission is paid by the bank to the tax collectors for their services.[1]

The plan recommended in the Report to the Philippine government is embodied in a draft bill,[2] the object of which as set forth in the title is "to encourage agriculture in the Philippine Islands by granting certain concessions and guarantees to a corporation to be known as the Philippine Agricultural Bank, the business of which shall be the making of loans to agriculturists in the Philippine Islands upon real estate, growing crops, or other security duly authorized by this act, for the purpose of enabling them to pay off existing debts, to make improvements upon their lands, to purchase agricultural implements, farm animals, fertilizers, and seed, and to make other similar expenditures desirable and proper for the advancement . . . of agriculture in the Philippine Islands."

The bill provides that the bank shall have an authorized capital of ten million pesos, which may be increased upon due authorization from the Philippine Commission.[3] Advances made by the bank are divided into three classes. Loans of the first class comprise those, the principals of which shall be between five thousand and thirty thousand pesos, loans of the second class those between two hundred and five thousand pesos, loans of the third class those under two hundred pesos. The bill requires the bank to treat with especial favor applications for small loans.[4]

[1] Cf. *Report on the Agricultural Bank of Egypt to the Secretary of War and to the Philippine Commission*, by E. W. Kemmerer, Special Commissioner to Egypt. (Manila, Bureau of Printing, 1906. Reprinted in the *Report of the Philippine Commission*, 1906, I, pp. 645-695.)

[2] *Phil. Agric. Bank Rep.*, exhibit A.

[3] Section IV. [4] Section VIII.

There are a number of restrictions upon the character of the loans authorized.[1] The bank is not permitted to grant loans "except for the purpose of assisting agriculture in the Philippine Islands." No loan of the first or second class is permitted to be made except on the security of a first mortgage on real estate situated in the Philippine Islands and registered under the Philippine land registration act.[2] No loan of the first class can be made except under the written authorization of the secretary of finance and justice.[3] Loans of the third class must be secured either by collateral of a market value equivalent to twice the amount of the loan, or guaranteed by two or more responsible persons. No loan of the first or second class can be made to an amount exceeding one-half the market value of the property mortgaged, or one-half of the assessed valuation of the property at the time of the last assessment, whichever shall be the smaller.

Loans of the first and second classes are not permitted to run for a period longer than twenty years, and are repayable by annuities covering principal and interest. Loans of the third class are repayable in a lump sum and cannot run longer than two years.[4]

The rate of interest authorized is 10 per cent.,—a high rate in the absolute, but a very low rate for real estate loans in the Philippines. The bill requires the rate of interest on both new and outstanding loans to be reduced on a sliding scale in proportion as the bank accumulates a surplus.[5]

[1] Section IX.

[2] The Philippine land registration act (Act No. 496 U. S. Philippine Commission) was passed November 6, 1902. Land registered under this act is given an unassailable Torrens title.

Up to June 30, 1906, there had been 2,467 applications for registration; of this number 814 were received during the ten months ending June 30, 1906. The total value of the land represented in all applications for registration since the organization of the Court of Land Registration is said to have been about 30,000,000 pesos, and of this amount nearly 10,000,000 pesos is represented by the applications made during the last ten months of the fiscal year 1906. *Report of the Philippine Commission*, 1906, III, p. 6.

[3] This provision was incorporated in the enabling act passed by Congress in March, 1907. Cf. *infra*, p. 18.

[4] Section XI.

[5] Section XII.

In planning an agricultural credit institution for people like the Filipino peasants, who are unfamilar with business methods and often lacking in foresight and in a proper appreciation of the importance of meeting business contracts, it is necessary to take unusual precautions for the protection of the creditor against loss arising from incapacity, negligence, or fraud on the part of the borrower. To this end the bill contains a specific provision authorizing the bank[1] to require the payment of the balance due on any loan, on three months notice, and in lieu of such payment to foreclose the mortgage (1) in case a mortgaged property, either by reason of bad management or other cause, deteriorates in value to such an extent as to endanger the security held by the bank, and the borrower, upon notice, fails either to pay back a corresponding portion of the loan or to make such improvements as shall be necessary to protect the bank; (2) in case the borrower fails to insure his buildings and stores against fire; (3) in case the mortgaged property has been alienated *inter vivos* without the bank's consent, or, in the case of transference by succession, when the person inheriting the same fails to accept the conditions of the bank's loan contract; (4) in case the borrower is unable to prove that he has regularly paid the public dues upon his estate; (5) in case the borrower fails in any other way to comply with the terms of his loan contract.

The bill seeks to prevent the misuse of funds borrowed from the bank—a very real danger in the Philippines—by declaring that[2] when a loan has been granted by the bank, the proceeds of which the borrower agrees to use for certain specified purposes, they shall not be diverted to other uses, or be subject to any claim upon a guaranty, or to any distraint or to any injunction on behalf of a third person. Loans granted by the bank, the proceeds of which the borrower agrees to use for certain specified purposes, become immediately due if the proceeds are applied to other uses than those specified in the loan contract. The diverting of the proceeds of loans to uses other than those specified in the agreement is furthermore made a misdemeanor, and, as such, renders the borrower liable to fine and imprisonment.

[1] Section XV.

[2] Section XIX.

In order to eliminate the heavy administrative expenses that would otherwise be involved in the collection of a large number of small loans on the annuity plan, the bill authorizes the bank[1] (following the Egyptian plan)[2] to utilize the services of provincial and municipal treasurers in the collection of its accounts.[3] Collections for the bank made by these government officials are to be made "as far as practicable at the times when the regular taxes are collected." Compensation by the bank for services rendered is to be made in the form of a commission on the sums collected.

The government guarantee provided for in the bill[4] is similar to that of the Egyptian government, except that in the Philippines the guarantee covers only dividends (or interest as the case may be) on capital invested, while in Egypt it covers the principal as well.[5]

The main provisions of the bill relating to the guarantee are as follows:[6]

The bank shall add to its gross earnings for the year all sums received during the year "in payment of obligations to the bank which became due during previous years and were not paid. From the total sum so obtained the bank shall deduct (1) all expenses of operation for the year; (2) all sums maturing during the year and not paid on or before the thirty-first day of December. The difference shall be considered . . . to be the bank's net profit . . . for the calendar year in question.[7]

From the bank's annual net profits so computed the bank shall set aside a sum equal to four per cent. of its cash paid-up capital for the purpose of dividends, shall pay the Philippine government any sums due it on account of advances under the guarantee, . . . and of the remainder at least forty per

[1] Section XXX.

[2] Kemmerer, *Report on the Agricultural Bank of Egypt*, pp. 28, 29.

[3] All measures for the enforcement of the collection of delinquent accounts are to be taken by the bank's own officials, and not by those of the government who are employed by the bank.

[4] Section XXVIII.

[5] Kemmerer, *Report on the Agricultura Bank of Egypt*, pp. 12, 13, 43, 45.

[6] Sections XXV–XXIX.

[7] Section XXV.

cent. shall be credited to the bank's surplus fund, until said fund shall be equal to twenty-five per cent. of the bank's cash paid-up capital,[1] ten per cent. shall be paid to the Philippine government, and the balance shall accrue to the corporation for dividends, or such other uses consistent with law as it may determine upon.

If in any year during the period of this concession there shall be a net loss, or if the net profits, as above computed, shall not be sufficient to pay the aforementioned dividends of four per cent. upon the bank's cash paid-up capital, there shall be deducted from the surplus fund a sum sufficient, together with the net profits of said year, to enable the bank to pay the aforementioned dividend of four per cent.; and if the entire surplus fund and the net earnings of the year taken together shall not be sufficient to enable the bank to pay said dividend, . . . there shall be paid to the bank . . . a sum out of the funds of the insular treasury, . . . sufficient, together with the surplus and the net profits for said year, to enable the bank to pay the aforementioned dividend of four per cent. *Provided,* that said guarantee shall at no time render the Philippine government liable to the bank for an annual payment greater than four per cent. of the par value of the bank's . . . paid-up capital stock.[2]

The bill gives the government ample powers of supervision and control. Under existing legislation[3] the Philippine government exercises a supervision over all the banks of the islands similar to that exercised over national banks in the United States by the federal government through the Comptroller of the Currency. In the proposed bill the government is given representatives on the board of directors,[4] the bank's articles of association and statutes must be approved by the Philippine government before they become operative, and all large loans[5]

[1] After a surplus fund equivalent to 25 per cent of the bank's paid-up capital has been accumulated, the amount to be set aside to the credit of the surplus fund is reduced from 40 to 25 per cent. The surplus fund up to twenty-five per cent of the bank's paid-up capital is to be invested in certain specified securities. Sections XXVI and XXVII.

[2] Section XXIX of the bill makes money paid by the Philippine government under its guarantee a contingent liability of the bank to the government, subject only to the right of the stockholders to receive a dividend of four per cent. per annum, and, in case of liquidation, to receive the par value of the bank's paid-up capital stock.

[3] Acts No. 52 and 556 U. S. Philippine Commission.

[4] Section V.

[5] Section IX.

and heavy administrative expenses[1] require the approval of the secretary of finance and justice.

Such are the principal features of the plan proposed by the writer in the winter of 1905. While the above bill has never been officially acted upon by the Philippine Commission, the general plan therein outlined has been the basis of recommendations of that body to the Secretary of War,[2] of the recommendations of the Secretary of War to the President, and of the Philippine agricultural bank act passed at the last session of Congress.

Early in the Fifty-ninth Congress Senator Newlands of Nevada introduced a bill[3] authorizing the Philippine government to issue ten million dollars of forty-year bonds to provide funds for the establishment of a government agricultural bank. It was referred to the Committee on the Philippines and was never reported back. Later bills were introduced into both houses authorizing the Philippine government to guarantee four per cent. interest on the capital of an agricultural bank to be established by private enterprise in the Philippine Islands.[4] The bill introduced by Senator Lodge in the Senate was passed

[1] Section VI.

[2] In its report for 1905 to the Secretary of War (I, p. 76) the Philippine Commission recommended "that Congress be asked to authorize the establishment of an agricultural bank by private capital, the principal of which shall be guaranteed by the government of the Philippine Islands, and interest at a rate not to exceed 4 per cent. per annum, with a limited total amount which the government of the Philippine Islands shall be called upon to pay in any single year not to exceed $200,000." In its report for 1906 (I, pp. 50, 51, 73) the Philippine Commission renewed this recommendation.

The Secretary of War in his report for 1906 (I, pp. 89, 81) said: "I concur with the Philippine Commission, and strongly recommend to Congress the passage of an act authorizing the Philippine government to guarantee to a private agricultural bank a dividend of 4 per cent on $10,000,000. I think that the experience of Lord Cromer has been so successful as to justify the making of such an effort with respect to Philippine agriculture."

[3] Senate bill No. 3,718. The bill is printed in Senate Document No. 277, vol. XXII, 59th Congress, first session, p. 1175.

[4] In the Senate a bill (No. 6,249) was introduced on May 22, 1906, by Senator Lodge of Massachusetts, chairman of the Committee on the Philippines; in the House bills (Nos. 23,567; 23,937; 25,053; 25,186) were introduced by Representative Cooper of Wisconsin, chairman of the Committee on Insular Affairs, and (H. bill No. 25,049) by Representative Garrett of Tennessee, a member of that committee.

by that body late in the season. On March 3d the Senate bill was called up in the House under suspension of the rules,[1] and, with a few slight alterations which were later approved by the Senate, was carried by a vote of 188 to 69,[2] a large number of Democrats coming to the support of the bill.

The act[3] as finally approved by the President March 4, 1907, is a general enabling act, and leaves the details of legislation for the organization and control of the bank almost entirely to the Philippine government. The act authorizes the Philippine government to guarantee an income of not exceeding four per cent. per annum upon the capital actually invested in an agricultural bank organized under the laws of the Philippine Islands, all of the loans of which shall be for the purpose of assisting persons engaged in agriculture in the Philippine Islands. The period of the guaranty is fixed at twenty-five years, and the government's liability under the guaranty is limited to $200,000 a year. Money paid by the Philippine government to the bank under the guaranty is to be a contingent liability of the bank to the government, and to constitute a lien upon the net profits of the bank, subject only to the right of the stockholders to receive therefrom four per cent. dividends per annum, and to the repayment to the stockholders of the par value of the bank's paid-up capital stock, when the bank shall go into liquidation.

Interest charged on loans is not permitted to exceed ten per cent. per annum, and no loan exceeding five thousand dollars can be made except upon the written authorization of the secretary of finance and justice of the Philippine Islands.

No legislation concerning the bank has yet been enacted by the Philippine government. Negotiations, however, are at present being conducted with American and European capitalists through the Bureau of Insular Affairs at Washington, looking toward the granting of the concession.

[1] Speaker Cannon is said to have been opposed to the bill and to have been willing to let it come up only in this way. *Nation*, March 7, 1907, p. 211.

[2] *Congressional Record*, XLI, p. 4,588.

[3] Public Act No. 243, 59th Congress, reprinted in the 1906 *Report of the Philippine Commission*, I, pp. 500 a, 500 b.

There can be little question but that the concession will be a valuable one if the bank is conservatively managed. As previously stated, there is no institution in the Philippines at the present time meeting the large and growing demand for agricultural credit. Over 700 miles of railways are now being built, opening up the most fertile regions of the archipelago, regions whose resources have heretofore been scarcely touched on account of lack of transportation facilities. Titles of registered land are perfect, and the best land is rapidly being registered. Administrative expenses connected with the making of loans and the collecting of annuities will be reduced to a relatively low figure by reason of the privilege the bank will possess of utilizing the services of government employees. Authority will be given to charge a high rate of interest—presumably 10 per cent.,—and an income of 4 per cent. will be guaranteed upon the capital for twenty-five years. The risk of the principal should not be great, because, unlike the case of the Philippine railroads, part of which also enjoy a government guarantee, almost no fixed capital is required, and such a bank can make a small beginning in the best agricultural districts and feel its way into other regions as experience shall justify.

In many respects the situation in the Philippines at the present time is similar to that which existed in Egypt about twelve years ago. There is the same scarcity of agricultural capital, and the same high interest rates. Attempts on the part of the British authorities to induce private capitalists to establish agricultural banks were then met by the same objections that are so commonly heard with reference to the Philippines to-day. Every suggestion of an agricultural bank for the loaning of capital in small sums to the Egyptian peasantry was met by dismal prophesies. "The fellaheen were incurably thriftless." "The money borrowed would be squandered." "There would be many bad debts." "The bank would be compelled to foreclose a large percentage of its mortgages." "The political future of the country was uncertain," etc., etc.

How ill founded were these pessimistic views is shown by the following facts:

In 1894 the Egyptian government took the matter in hand by making some advances of seed to the fellaheen to be paid for after the harvest.[1] The experiment was successful and later small advances of money were made, under like conditions and with like success.[2] In 1898 the National Bank of Egypt was established.[3] One of the main reasons which induced the government to assent to the creation of this bank was its desire to facilitate the extension of agricultural credit facilities among the fellaheen. The agricultural credit operations of this bank assumed such proportions by 1902 that a separate institution, the Agricultural Bank of Egypt, was organized to take care of them.[4] From June, 1902, to March, 1907, the paid-up stock and debenture capital of the Agricultural Bank of Egypt increased from £1,250,000 to £7,240,000. In December, 1905, the bank's outstanding loans numbered 185,530, the average size of the loans being about £32.[5] In spite of this large number of small loans there have been no bad debts,[6] foreclosure proceedings have been carried through in only four instances,[7] liberal dividends have been paid,[8] a substantial surplus has been accumulated,[9] and the common stock is now quoted at a premium of 65 per cent.[10] The Egyptian government has never been called upon to pay a cent on its guarantee. Interest rates on agricultural loans have been reduced throughout Egypt, and the bank has been of untold benefit to the Egyptian fellaheen.

It is hardly to be expected that an agricultural bank in the Philippines will be able to show such a remarkable record during the first few years of its history as has the Agricultural Bank of Egypt. It could fall far short of that record and still be a success. Egypt has several important advantages over the Philippines for which allowance must be made in comparing the two countries, as for example, the richness of her soil, the compactness of her territory, and the relative certainty

[1] Kemmerer, *Report on the Agricultural Bank of Egypt*, p. 8.

[2] Ibid., p. 9. [3] Ibid., p. 10. [4] Ibid., p. 11. [5] Ibid., p. 15. [6] Ibid., pp. 22, 23.

[7] Ibid., pp. 24, 25.

[8] The rates paid on the common stock for the four years the bank has been in operation have been 4, 6, 7½, and 9 per cent. respectively.

[9] Ibid., p. 60.

[10] *Investors' Monthly Manual*, August, 1907, p. 463.

of her water supply. When due allowance, however, is made for these advantages, the situation would seem to justify one in interpreting the remarkable success of the Agricultural Bank of Egypt as presumptive evidence of a favorable outcome of the experiment about to be made in the Philippines.

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